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State of Idaho

Legislative Services Office

Management Report

A communication to the Joint Finance-Appropriations Committee

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# **DIVISION OF BUILDING SAFETY**

**FY 2005, 2006, and 2007**

**Report IC45007**  
**Date Issued: April 7, 2008**

*Serving Idaho's Citizen Legislature*

# FOREWORD

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## **PURPOSE OF REPORT**

We evaluated the internal controls over financial operations of the Division of Building Safety as part of our effort to evaluate each State agency at least once every three years. This report summarizes the results of our evaluation.

## **SCOPE OF WORK**

The management of the Division is responsible for establishing and maintaining internal controls. We obtained an understanding of the relevant policies and procedures comprising the internal control system. We also determined whether the relevant policies and procedures had actually been placed into operation. Our intent was to indicate where internal controls could be improved in order to help ensure the Division's ability to record, process, summarize, and report financial data accurately.

## **AUDIT AUTHORIZATION**

Reported to the Joint Finance-Appropriations Committee as directed by the Legislative Council of the Idaho Legislature, authorized by Idaho Code, Section 67-429.

## **ASSIGNED STAFF**

Aimee Hayes, CPA, Staff Auditor  
Brinton Croff, Staff Auditor

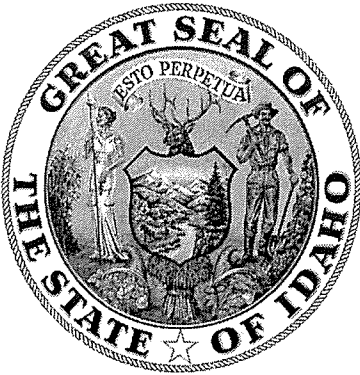
## **ADMINISTRATION AND TECHNICAL REVIEW**

Don H. Berg, CGFM, Manager, Legislative Audits Division  
Chris Farnsworth, CPA, Managing Auditor

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## EXECUTIVE SUMMARY LEGISLATIVE AUDITS

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### DIVISION OF BUILDING SAFETY

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**PURPOSE AND SCOPE** – We performed certain audit procedures to evaluate the effectiveness of the Division of Building Safety's internal control design and operation. The limited scope of our procedures does not allow us to give an opinion on the Division's internal control system. Accordingly, we do not express an opinion or ensure that all instances of internal control weaknesses were disclosed. Our purpose was to indicate where internal controls could be strengthened to help ensure accurate financial statements and data. Any findings and recommendations are intended to improve the internal control system to prevent errors, omissions, misrepresentations, or fraud.

**CONCLUSION** – We noted one matter involving the internal control over the Division's financial reporting and its operation that we consider to be material weaknesses. However, our consideration of internal controls would not necessarily disclose all matters considered to be a material weakness.

**FINDINGS AND RECOMMENDATIONS** – There is one finding and recommendation included in this report, as summarized below.

**FINDING #1** – Sensitive personal and financial data of customers is not properly safeguarded. The Division is required by Idaho Code to obtain social security numbers of customers for licensing. Also, other sensitive financial and personal data is collected during the collection of fees. Idaho Code requires that when systems or other files where personal data has been stored have been breached, an investigation must be conducted to determine the likelihood that such information has or will be misused, and to promptly notify affected individuals.

Personal and financial data of customers is stored in hard copy formats in locations that are not properly safeguarded. Procedures are not in place that meet Idaho Code requirements for promptly identifying and investigating when data has been breached and notifying affected individuals.

**RECOMMENDATION #1** – **We recommend** that the Division develop a comprehensive approach for safeguarding sensitive personal and financial data of customers. This effort should include identifying each location where data is stored and develop measures to safeguard this data from unauthorized use. **We also recommend** that the Division develop procedures for monitoring, investigating, and promptly notifying customers if data has been breached.

**AGENCY'S CORRECTIVE ACTION PLAN** – The Division of Building Safety is in the process of implementing a new customer access system (CAS) for licensing and permitting. CAS will include many features that will help with internal controls when dealing with sensitive customer data.

CAS will help protect data by being sheltered from an outside electronic intrusion. CAS will be hosted on servers located within the administration building of the Division of Building Safety, and will be protected by the firewall at the Department of Administration, as well as the Division's firewall. The server and database are protected by passwords as well. These passwords will also

help protect data should the server be physically taken from the building. These features will greatly reduce the likelihood of someone from the outside hacking into the system.

To manage the risk associated with internal threats, the Division is evaluating options to ensure that data remains secure. There are software solutions that will help isolate the Division's servers when an employee reconnects to the network. This will ensure that computers that are connected to the network have gone through the proper virus scans and are free of threats to the system. Password protection of files will also allow the Division to limit and to monitor the access to sensitive data by employees.

CAS will help protect the social security numbers of customers obtaining a license through the Division of Building Safety. Paper copies of social security numbers will no longer be maintained. Electronic tables will be maintained, but the access to these numbers will be limited to select employees. This will greatly reduce the number of employees that have access to this sensitive data, and will greatly enhance the security of the personal data of customers.

The new electronic system will also help keep customer credit card information secure. Customers will be required to enter their credit card information each time they pay for services using CAS. This credit card data will be encrypted and sent to the Division's bank automatically, and will not be maintained by CAS or accessible to any Division employees.

The Division is developing a procedure to identify and investigate when sensitive data has been breached. These procedures will be developed by using the Information Technology Resource Management Council's *Cyber Security Breach Notification Policies*.

CAS will be implemented around August 2008, and will help the Division greatly increase internal controls. In the interim, the Division will no longer maintain paper copies of credit card information. Credit card numbers will still be taken for payment, in person or over the phone, but the credit card number will not be kept on file after use.

All file locations that currently contain credit card data are being examined and credit card numbers are being removed from the files and shredded. Files containing social security numbers will also be identified so that they can be securely stored. All files with sensitive data, including shredded files, will be properly secured.

**PRIOR FINDINGS AND RECOMMENDATIONS** – There was one finding and recommendation in the prior report. As discussed below, the recommendation was implemented and the finding is closed.

**PRIOR FINDING** – The Division did not follow State purchasing rules and good project development procedures when it enhanced its computerized receipting system. The Division entered into a contract to enhance its computerized receipting system without obtaining bids as required by State rules. The contract did not cover all the work completed; did not specify the expected deliverables; and did not include other items, such as a retainage clause and penalties for lack of specific performance. Also, the Division did not document project specifications or develop a work plan to include processes for managing project changes, troubleshooting issues, or formal training. Good contract and project management procedures protect the Division and help ensure that the work is completed in a timely manner.

**PRIOR RECOMMENDATION** – **We recommended** that before proceeding with new information technology projects, the Division document project specifications; comply with State contracting rules; ensure contracts contain provisions for all deliverables (commonly called a Statement of Work); ensure there are retainage clauses and

penalty clauses for lack of specific performance; and develop a project work plan that includes processes to manage troubleshooting, project changes, and formal training.

**AUDIT FOLLOW-UP** – The Division has contacted the State Division of Purchasing to ensure that all future acquisitions and computer enhancement projects are completed in accordance with State purchasing rules and laws. The Division also had an in-depth review of its new computerized receipting system completed by an independent third party, who found that there are critical security weaknesses and that standard computer programming conventions were not followed. Critical weaknesses are currently being addressed and the Division has placed its contract with the original vendor on hold. The Division is currently working with computer programmers from the Department of Commerce and Labor to fix critical errors caused by inadequate design and programming.

#### **STATUS – CLOSED**

**AGENCY RESPONSE** – The Division has reviewed the report and is in general agreement with its contents.

**FINANCIAL SUMMARY** – The following financial data is included for information purposes only.

#### **DIVISION OF BUILDING SAFETY – FISCAL YEAR 2007 FINANCIAL SUMMARY**

	State Regulatory Fund 0229	Federal Fund 0348	Miscellaneous Revenue Fund 0349	Total
Beginning Free Fund Balance	\$10,181,866	\$79,256	\$161,812	\$10,422,934
Transfers In	377,100	0	174,322	551,422
Receipts	12,025,248	111,060	1,139,395	13,275,703
Total Funds Available	\$22,584,214	\$190,316	\$1,475,529	\$24,250,059
Personnel Costs	\$7,583,752	\$64,662	\$780,365	\$8,428,779
Operating Expenses	2,781,551	72,581	261,804	3,115,936
Capital Outlay	370,342	668	55,558	426,568
Transfers Out	377,100	0	174,322	551,422
Total Expenditures	\$11,112,745	\$137,911	\$1,272,049	\$12,522,705
Ending Fund Balance	\$11,471,469	\$52,405	\$203,480	\$11,727,354

The Division is funded by license fees, inspection fees, and federal grants. These funds are appropriated to the Division from the Special Revenue Fund, Federal Fund, and Miscellaneous Revenue Fund.

**OTHER ISSUES** – We discussed other matters with the Division which, if addressed, would improve internal control, compliance, and efficiency.

This report is intended solely for the information and use of the State of Idaho and the Division of Building Safety and is not intended to be used by anyone other than these specified parties.

We appreciate the cooperation and assistance given to us by the Division's administrator, C. Kelly Pearce, and his staff.

**QUESTIONS CONCERNING THIS DOCUMENT SHOULD BE DIRECTED TO:**

Don H. Berg, CGFM, Manager, Legislative Audits Division

Chris Farnsworth, CPA, Managing Auditor

# AGENCY RESPONSE

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*State of Idaho*  
***DIVISION OF BUILDING SAFETY***

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***Building a Safer Idaho***

**C.L. "BUTCH" OTTER**  
Governor

**C. Kelly Pearce**  
Administrator

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March 17, 2008

Mr. Don H. Berg, CGFM  
Manager, Legislative Audits Division  
Legislative Services Office  
Boise Idaho  
STATEHOUSE MAIL

Dear Mr. Berg:

I would like to thank your staff, Managing Auditor Chris Farnsworth and Staff Auditors Aimee Hayes and Brinton Croff, for their professionalism while reviewing the internal controls of the Division of Building Safety. The Division of Building Safety concurs with the Management Report on Internal Controls.

It is a pleasure to work with your staff and we appreciate your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "Kelly Pearce", written over a horizontal line.

**C. KELLY PEARCE**  
Administrator  
Division of Building Safety



# APPENDIX

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## HISTORY

The Division of Building Safety derives its authority from the Idaho State Constitution. In 1899, the Bureau of Immigration Labor and Statistics was established to comply with Section 1, Article 13, of the State Constitution. A commission was appointed by the Governor to direct the Bureau in its primary responsibility of collecting information about labor in Idaho. This Bureau was eliminated in 1919. In 1949, an act was passed creating the Department of Labor. In 1955, the Minimum Wage and Wage Payment Laws were passed.

The Department of Labor and Industrial Services, created as one of 20 executive agencies under the Reorganization Act of 1974, was set up to combine the activities of all agencies responsible for public safety. At that time, five separate agencies were performing those functions: the Department of Labor, the Mine Inspector, the Idaho State Electrical Board, the Idaho State Plumbing Board, and the Mobile Home and Recreational Vehicle and Manufactured Housing Division of the Department of Law Enforcement. The legislature eliminated the Bureau of Mines on July 1, 1979, and removed the Department's responsibility for mine safety on July 1, 1980. A logging safety program has been added to promote logging safety and perform safety inspections.

The legislature created the Idaho State Electrical Board in 1947 in response to industry concerns about the lack of regulations and safety in electrical installations statewide. This legislation provided that anyone working as an electrical contractor or journeyman must receive a certificate of competency. The act was amended in 1955 to require inspections to ensure that electrical installations in Idaho were made in accordance with the National Electrical Code. In 1986 an apprenticeship program was enacted.

The Idaho State Plumbing Board was created by the legislature in 1957. This act required both the licensing of plumbers and the inspection of plumbing systems to ensure compliance with the National Plumbing Code of the American Standards Association.

The Mobile Home and Recreational Vehicle Act required that mobile homes and recreational vehicles be built according to reasonable safety standards, and that each unit be inspected and approved before it could be offered for sale in Idaho. A 1972 amendment to this act required structural inspections to be conducted, and the 1975 Idaho Building Code Advisory Act required all new construction be inspected for compliance with

several building codes. In 1977, the act was amended to provide that the adoption of and inspection and enforcement of the Uniform Building Code Advisory Act be optional with county and city governments. The Idaho Manufactured Home Licensing and Bonding program was created by a law passed during the 1988 legislative session that requires all manufactured home professionals be licensed and bonded. This program also included a statewide minimum installation standard and provided consumer protection. A 1990 act created the Idaho Residential Energy Standard, requiring self-certification for residential single-family dwellings.

In 1996, the Idaho Legislature moved the Wage and Hour program from the Department of Labor and Industrial Services and renamed the program the Division of Building Safety, effective July 1, 1996.

Effective July 1, 2000, the Public Works Contractors License Board was combined with the Division of Building Safety.

Executive Order #2001-06, signed by the Governor in fiscal year 2001, moved the Energy Codes and Standards program from the Department of Water Resources to the Division of Building Safety.

Effective April 14, 2004, the Heating, Ventilation, and Air Conditioning (HVAC) Board was established within the Division of Building Safety. The HVAC program was established to ensure that installation of HVAC systems is in accordance with industry codes and standards and that the installers are licensed.

On July 1, 2004, the Elevator Safety Code Act became effective. This act established a self-funded elevator inspection program administered by the Division of Building Safety. Previously, the program was administered by the Division but funded by the Industrial Commission.

## **STATUTORY AUTHORITY**

The statutory authority for the Division of Building Safety is set forth in Idaho Code, Section 67-2601(d).

## **PURPOSE**

The purpose of the Division is to provide for the health and safety of the public with regard to compliance with building safety code requirements, licensing of public works contractors, and to provide information and services to all Idaho citizens in an efficient and effective manner.

## **ORGANIZATION**

The Division is organized into five safety bureaus and an administration section. The administration section provides

administrative, fiscal, personnel, secretarial, and legal services to all of the Division's bureaus.

The building safety program includes:

- The Electrical Bureau and the Plumbing Bureau license electricians and plumbers, issue permits, approve plans, and conduct code compliance inspections.
- The Building Safety Bureau checks plans, makes in-plant inspections of manufactured homes and prefabricated structures, conducts HUD dealer lot manufactured home inspections, and investigates consumer complaints.
- The Industrial and Logging Safety Bureau inspects State, school district, county and city facilities to ensure safe working conditions; manages statewide elevator and boiler safety programs; and provides first aid and safety training for loggers, logging contractors, and supervisors.
- The Public Works Licensing Bureau licenses contractors, subcontractors, and construction managers for public works construction.

Each bureau is directed by an advisory board whose members come from the industry it serves.

- The Idaho Electrical Board consists of nine members appointed to four-year terms, and represents all facets of the electrical industry. The board establishes the fees for permits and advises the administrator on policies. (Chapter 10, Title 54, Idaho Code)
- The Idaho Plumbing Board consists of five members from the plumbing industry appointed to three-year terms. The board advises the administrator about the rules and regulations necessary to carry out the provisions of the plumbing code and sets permit fees. (Chapter 26, Title 54, Idaho Code)
- The Idaho Building Code Board consists of nine members appointed to four-year terms. The board advises the administrator on matters involving building codes, and acts as an appeals board to interpret those codes.
- The Manufactured Home Advisory Board consists of five members serving three-year terms. It was established as a complaint-and-appeals board and to advise the administrator on all laws and rules pertaining to the

licensing and set-up procedures for manufactured homes. (Chapter 21, Title 44, Idaho Code)

- The Public Works Contractors License Board consists of seven members serving three-year terms, for up to two terms. The board advises the administrator about the rules and regulations necessary to carry out the provisions of the Public Works Contractors License Code. (Chapter 50, Title 54, Idaho Code)
- The HVAC Board consists of seven members serving two-year terms. The board advises the administrator about the rules and regulations necessary to carry out the provisions of the HVAC Code and sets permit fees. (Chapter 50, Title 54, Idaho Code)
- The Logging Safety Program was created by the 1987 legislature to work toward reducing the frequency and severity of accidents in an industry where very little control over the work environment exists. This program provides first aid and safety training to logging contractors and sawmill operators, as well as offering specialized on-the-job training upon request.

## FUNDING

**Electrical Board Fund (0229-01)** – This fund receives fees for electrical inspections, permits, and licenses. It is used to ensure safe installation and use of electricity.

**Building Fund (0229-02)** – This fund receives fees for inspections, plan review and certifications. The fund is used to ensure that manufactured homes, modular prefabricated structures, and site-built structures are constructed in accordance with either federally-adopted or Idaho-adopted construction and safety standards. This fund is also used to administer the asbestos industry accreditation program and the Mobile Home Rehabilitation Act.

**Plumbing Board Fund (0229-03)** – This fund receives fees for plumbing inspections, permits, and licenses. It is used to ensure correct installation and work on plumbing fixtures.

**Manufactured Housing Fund (0229-04)** – This fund receives fees for manufactured housing licenses issued to manufacturers, dealers, sales representatives, brokers, and services companies of manufactured homes.

**Public Works Contractors License Fund (0229-07)** – This fund receives fees from licensing public works contractors, builders, subcontractors, specialty contractors, and construction

managers. It is used to administer and enforce the provisions of the Public Works Contractors License Act.

**Heating, Ventilation, and Air Conditioning Fund (0229-08)** –

This fund receives fees from HVAC inspections, permits, and licenses. It is used to ensure correct installation and work on HVAC fixtures.

**Elevator Safety Code Act Fund (0229-14)** – This fund receives fees from elevator registration, inspections, and renewal fees. It is used to ensure that elevators are installed and maintained to code through a five-year periodic inspection program.

**Federal Fund (0348)** – This Fund receives federal money from the Department of Housing and Urban Development (HUD) for monitoring and ensure that manufactured homebuilders and dealers are in compliance with HUD enforcement standards. This program also investigates consumer complaints.

**Miscellaneous Revenue Fund 0349** – This fund receives money from the Idaho Industrial Commission for safety inspections of State, school district, city and county facilities to ensure safe working conditions and to provide safety training to logging industry personnel to help reduce accidents. Funds are also received from the Institute for Building Technology and Services (IBTS) to fulfill the requirements of the HUD monitoring program and from Northwest Energy Efficiency Alliance (NEEA) funds used to finance programs that develop, promote, implement, and enforce energy codes and standards for commercial and residential buildings.

